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SIPDIS

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SUBJECT: ARMENIA: SURPRISINGLY LITTLE TRADE WITH IRAN

REFTEL: YEREVAN 966

1. (U) Sensitive but Unclassified. Please protect accordingly

SUMMARY

2. (SBU) Despite Armenia's geographic isolation and closed borders, trade with its southern neighbor Iran remains surprisingly small. While the April 12-13 meeting between Armenian Foreign Minister Vartan Oskanyan and Iranian Foreign Minister Kamal Kharrazi and First Vice-President Mohammad Reza Aref focused on the proposed Iran-Armenian gas pipeline (reftel), new trade or investment agreements were noticeably absent from the meeting's agenda. The overall trade turnover of USD 100 million between Iran and Armenia has remained steady over the past six years with Armenian exports to Iran slowly decreasing and Iranian imports remaining steady. A combination of an increase in the import of more western goods, an increase in Armenian domestic production, and obstacles to doing business in Iran will likely push down the overall trade balance between Iran and Armenia in the near future. End summary.

ARMENIAN EXPORTS TO IRAN: SMALL AND SHRINKING

3. (SBU) Recent statistics provided by the GOAM show that the total value of exports from Armenia to Iran during 2003 was USD 22.2 million (a decrease from USD 31.3 million during the same period in 2002). This latest information places Iran in seventh place for Armenian exports behind Russia, Belgium, Israel, U.S. and Switzerland.

4. (SBU) Armenian Ministry of Foreign Affairs Middle East Division Chief Karen Mirzoyan and Ministry of Trade and Economic Development representative Gagik Kocharian said that the main Armenian exports to Iran are machinery and machine parts, copper, aluminum, scrap metals and a minimal amount of food products. Kocharian said the GOAM believed that the amount of machines and machine parts exported to Iran would probably stay at the same level for the near future, but the amount of export of scrap metal to Iran would drop. He predicted this drop because much of the leftover Soviet era scrap in Armenia had already been sold, and Armenian scrap dealers are now looking toward European and Indian clients for better prices.

IRANIAN BUSINESS PRACTICES FRUSTRATE TRADE

5. (SBU) Samuel Bakimyan, Chief of the Armenian Chamber of Commerce, said that dissonance between Armenian and Iranian business practices also frustrated trade between the two countries. He reported that an upcoming exhibition for Armenian exports will not include Iran. Bakimyan stated that Armenian businessmen find the business climate in Iran frustrating and complain of cultural misunderstandings, a difficult Iranian bureaucracy and the inability to sign and keep agreements with their Iranian partners.

IRANIAN EXPORTS TO ARMENIA

6. (SBU) Official GOAM statistics show that in 2003, Iranian exports to Armenia equaled USD 66.7 million (an increase of USD 62 million from the same period in 2002). Mirzoyan and Kocharian told us that the main imports from Iran consisted of fruits, nuts, light metals, textile home products, and plastics. Kocharian predicted that certain imports from Iran will probably drop in the next several years due to the increased importation of foodstuffs from Europe and recently opened plastic and cement factories in Armenia.

Kocharian believed that home textile products will probably remain steady and imported raw materials from Iran may actually increase as domestic production in Armenia increases. Kocharian stated that many rank and file Armenians, however, had a perception that Iranian manufactured goods were of low quality. GOAM contacts report that the increase of domestic goods and European imports, coupled with the bias against Iranian goods, is slowly pushing many Iranian plastics, foodstuffs and manufactured goods out of the Armenian domestic market.

BUILDING TEXTILES: STEADY IRANIAN IMPORT

17. (SBU) One consistent attribute in Iranian-Armenian trade has been the importation of Iranian building materials. The President of building contractor RV Comfort, Ruben Shahmuradyan, told us that from 1994-2004, he increased the import of Iranian construction and building materials by twenty percent each year. He said that RV imported about USD ten million worth of Iranian goods in 2004, making RV the leading importer of Iranian construction materials, tiles, bathroom appliances, radiators, stones and piping in Armenia. Shahmuradyan told us that more than half of his total inventory was made up of Iranian products, which he was able to consistently sell to local builders because of their affordable price. Shahmuradyan predicted that he would increase the import of Iranian goods over the next several years and told us that after a multi-year relationship with Iranian factory owners, he can now buy up to USD 300,000 on credit. He said that he has enjoyed support from both Iranian Customs officials and the Iranian Embassy in facilitating the purchase and shipping of his products.

IRANIAN INVESTMENT IN ARMENIA

18. (SBU) According to Tigran Sukiasyan of the Ministry of Trade and Development, Iran invested USD two hundred thousand in Armenia in 2003. Investment in 2003 dropped sharply from an unusual spike of over USD two million in 2002. Sukiasyan stated that since 1991, Iran ranked eighteenth in total investments in Armenia following Russia, U.S., Greece, Cyprus and others. The 2003 investment figures put Iran in twentieth place for foreign investment in Armenia during the year. Mirzoyan told us that Iranian investors generally prefer to make smaller investments in Armenia because they are still uncertain about the local business climate and are often afraid to lose any large investment capital. Kocharian said he believed that mid-level Armenian and Iranian businessmen founded the majority of recent joint ventures in Armenia. As an example of a successful joint venture between the two countries, he pointed to Iran's Grand Sun Holding, which produces lamps in Iran as well as light industrial products, jewelry, and transportation joint ventures in Armenia. A June 2004 visit by Armenia's Minister of Agriculture reportedly included discussion of new joint ventures involving leather goods and fruit products.

19. (SBU) In a five-year (1998-2002) Iranian economic cooperation program outline, the Iranian government admitted that trade did not significantly increase from 1998 to 2002, and felt this was hampered due to misunderstandings on both sides, frequent changes in Armenian officials, lack of transparency, and a lack of a long term investment strategy. The outline also stated that the energy sector was a crucial area of bilateral cooperation because of Iranian interest in selling Iranian gas through Armenia and Georgia to Europe, as well as the import of electricity from Armenia to help develop the Iranian economy (reftel). The outline also suggests that Iran was interested in actively pursuing joint ventures in cattle breeding, poultry, milk processing plants, and leather processing mills.

COMMENT

10. (SBU) Even though Iran represents one of only two immediate open borders with Armenia, there are few non-energy joint ventures or investments currently under discussion between the two governments. While trade in certain sectors such as Iranian building materials, Iranian fruits, and Armenian machinery and machine parts will probably remain steady or even expand in the near future, non-energy trade between the two nations will likely remain at the same level or even slowly

shrink, due to cultural misunderstandings, bureaucratic obstacles, and a desire of Armenian businessmen to explore the more efficient and larger markets in Europe and the U.S.

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